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TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE 
CHIEF EXECUTIVE OFFICER

FROM: CAROL INGE 
CHIEF PLANNING OFFICER

SUBJECT: FINDINGS OF THE FISCAL YEAR 2001- 2003 TRIENNIAL
PERFORMANCE AUDIT OF THE EZ PASS PROGRAM

ISSUE

This final report outlines the findings of the fiscal year 2001 – 2003 Triennial Performance Audit of the Regional Los Angeles County Transit Pass (EZ Pass) program. The program started in September 2002 and for the first time, the program was reviewed as part of the Triennial Performance Audit process.

DISCUSSION

Under contract, the firm of Booz, Allen and Hamilton (BAH) independently conducted the FY 2001 – 2003 Performance Audit, including the EZ Pass program. The Metro Board approved the EZ Pass program in April, 2002, and it became operational on September 1, 2002. The program is growing successfully and has increased its operator participation from eleven to twenty- one since its inception. EZ Pass sales have tripled from around \$5 million in FY 2003 to \$17 million in FY 2006. This program is the first of its kind in Los Angeles County and demonstrates inter-agency coordination in advance of the region's Universal Fare System.

Attachment A lists all the participating operators in the EZ Pass program and Attachment B describes the audit that BAH conducted.

NEXT STEPS

The program will be audited as part of the FY 2004 – 2006 Triennial Performance Audit scheduled for FY 2007.

ATTACHMENTS

Attachment A - List of Operators Participating in the EZ Pass Program and Their Corresponding EZ Pass Sales

Attachment B - EZ Pass Audit Conducted by Booz, Allen and Hamilton

EZ PASS PARTICIPANTS

Original Participating Agencies

- Culver City Municipal Bus Lines*
- Foothill Transit*
- Gardena Municipal Bus Lines*
- Long Beach Transit*
- Los Angeles Department of Transportation*
- LACMTA (Metro)*
- Montebello Bus Lines*
- Norwalk Transit*
- Santa Clarita Transit*
- Santa Monica Big Blue Bus*
- Torrance Transit*

Added Participating Agencies

- Antelope Valley Transit Authority*
- Area Rapid Transit System (Pasadena)
- Burbank Local Transit
- City of Commerce
- El Monte Transit
- Gold Link (South Pasadena)
- Glendale Beeline
- Metro Express (Santa Fe Springs)
- Spirit Bus (Monterey Park)
- Torrance Municipal Area Express

*Operators audited as part of the TDA Triennial Performance Audit Process

EZ Pass Sales

FY 2003	FY 2004	FY 2005	FY 2006
\$5,166,578	\$8,492,226	\$13,097,422	\$17,472,360

Final Report

**FY01-FY03 TRIENNIAL PERFORMANCE AUDIT
EZ Pass Program Review**



Los Angeles
April 26, 2006

prepared by
Booz | Allen | Hamilton

in association with

ALTMAYER CONSULTING

Introduction

THE EZ PASS PROGRAM WAS REVIEWED AS PART OF THE TDA TRIENNIAL PERFORMANCE AUDIT PROCESS

- Triennial performance audits are a requirement for the continued receipt of State Transportation Development Act (TDA) funds for public transit under California Public Utilities Code (PUC) Section 99246. The Los Angeles County Metropolitan Transportation Authority (MTA) is responsible for administering the conduct of performance audits in the Los Angeles region
- In addition to TDA requirements, the triennial performance audit process for Los Angeles County includes a review of the TPM (Transportation Performance Measurement) Program and, for the first time, a review of the EZ Pass program started in September, 2002
- TDA and TPM requirements were reviewed and findings are documented in detailed audit reports for each audited agency. This document specifically addresses the EZ Pass program review, which includes a review of the following items for each audited operator that participates in the EZ Pass program:
 - EZ Pass boarding count methodology and data submitted to MTA
 - Verification of the accuracy of the average fare calculation used to reimburse operators for EZ Pass usage on their systems

EZ Pass Program

THE EZ TRANSIT PASS PROMOTES TRANSIT RIDERSHIP IN LOS ANGELES COUNTY BY FACILITATING SEAMLESS TRAVEL IN THE REGION

- Development of the EZ Pass began in November 2001 with a working group made up of municipal transit operator general managers and MTA staff. Guiding principles of the EZ Pass program include:
 - The program will result in no revenue loss to participating operators
 - Revenue sharing methodology would be simple/easy to administer yet be fair to all participants
 - Price of the pass should be affordable yet sufficient to generate reasonable operator revenue
 - To keep the pass affordable, subsidize the program participants with regional funds
 - Additionally, the EZ Pass program was designed to be easily accommodated within the Universal Fare System to be implemented at a later date
- The EZ Pass program was approved by the MTA Board in April, 2002 and became operational on September 1, 2002. The program is growing successfully and has increased its operator participation from eleven to twenty one since its inception
- The EZ Pass Program is the first of its kind in Los Angeles County and demonstrates inter-agency coordination in advance of the region's Universal Fare System (planned for regional implementation in 2005)

EZ Pass Program

EZ PASS PARTICIPANTS INCLUDE THE FOLLOWING....

Original Participating Agencies

- Culver City Municipal Bus Lines*
- Foothill Transit*
- Gardena Municipal Bus Lines*
- Long Beach Transit*
- Los Angeles Department of Transportation*
- LACMTA (Metro)*
- Montebello Bus Lines*
- Norwalk Transit*
- Santa Clarita Transit*
- Santa Monica Big Blue Bus*
- Torrance Transit*

Added Participating Agencies

- Antelope Valley Transit Authority*
- Area Rapid Transit System (Pasadena)
- Burbank Local Transit
- City of Commerce
- El Monte Transit
- Gold Link (South Pasadena)
- Glendale Beeline
- Metro Express (Santa Fe Springs)
- Spirit Bus (Monterey Park)
- Torrance Municipal Area Express

* Operators audited as part of the TDA Triennial Performance Audit Process

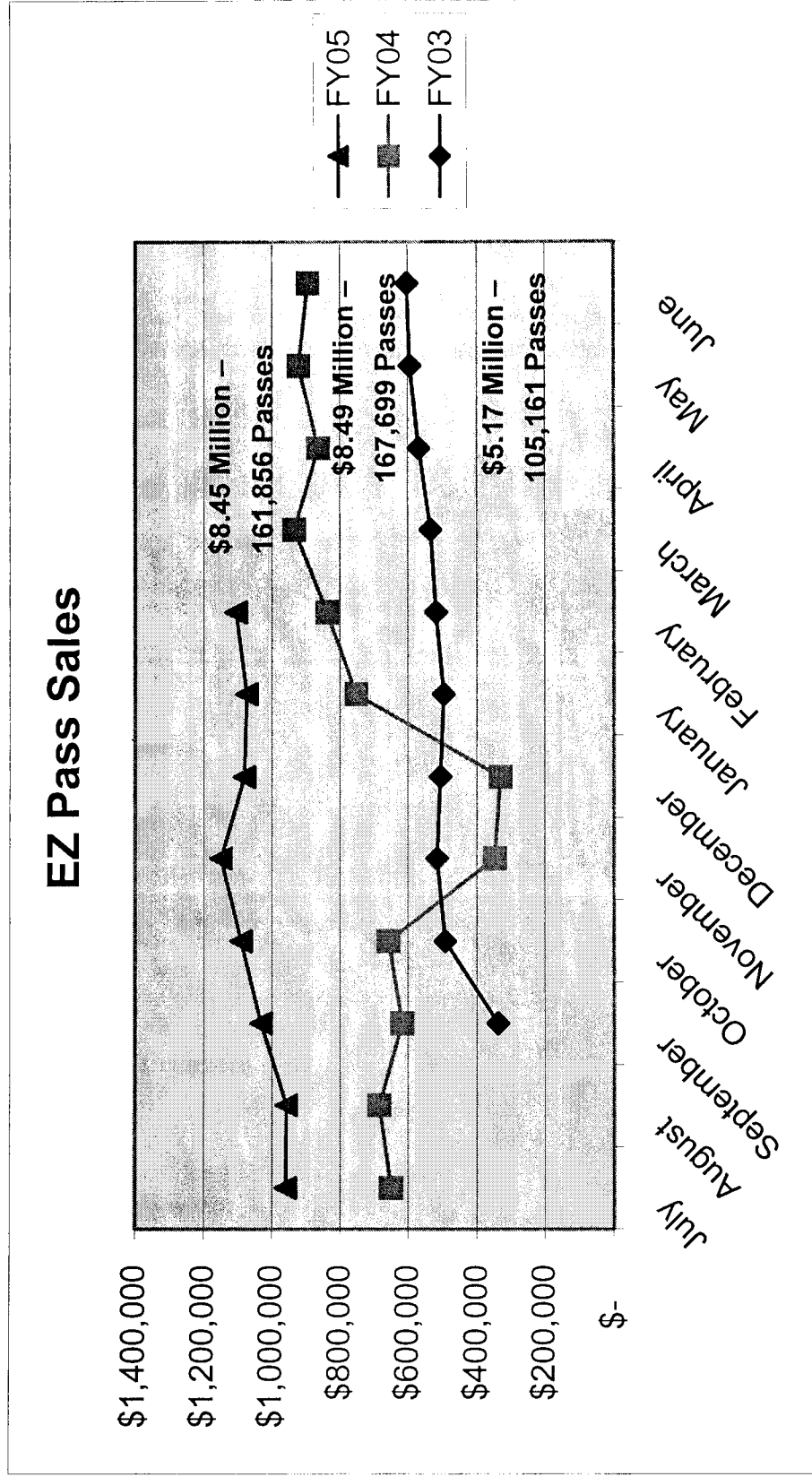
EZ Pass Cost

**THE BASIC EZ PASS ALLOWS FOR FREE TRANSFERS AMONG PARTICIPATING AGENCIES
WITH PASS UPGRADES OR ADDITIONAL CASH PAYMENT REQUIRED FOR ZONE TRAVEL**

Operator	Zones	Regular EZ Pass	Senior/Disabled EZ Pass
All Participating Operators	Base (No Zones)	\$58	\$29
AVTA (Antelope Valley)	8 to 10	\$208 - \$248 (Base plus \$15 per zone plus additional premium)	\$104 - \$124 (Base plus \$7.50 per zone)
Big Blue Bus (Santa Monica)	1	\$73 (Base plus \$15)	\$36.50 (Base plus \$7.50)
Foothill Transit	3 to 5	\$103 - \$133 (Base plus \$15 per zone)	\$29 (no zone premium)
Gardena Municipal Bus Lines	1	\$73 (Base plus \$15)	\$36.50 (Base plus \$7.50)
LADOT	1 to 4	\$73 - \$118 (Base plus \$15 per zone)	\$36.50 - \$59 (Base plus \$7.50 per zone)
Metro	1 to 2	\$73 - \$88 (Base plus \$15 per zone)	\$29 (no zone premium)
Montebello Bus Lines	1	\$73 (Base plus \$15)	\$36.50 (Base plus \$7.50)
Santa Clarita Transit	4 to 5	\$118 - \$133 (Base plus \$15 per zone)	\$59 to \$66.50 (Base plus \$7.50 per zone)
Torrance Transit	1	\$73 (Base plus \$15)	\$36.50 (Base plus \$7.50)

EZ Pass Sales

EZ PASS REVENUES HAVE STEADILY GROWN SINCE THE PROGRAM'S INCEPTION IN SEPTEMBER, 2002



Source: LACMTA Programming and Policy

Notes: Low pass sales in November and December FY04 due to MTA strike.

EZ Pass sales began in September, 2003.

EZ Pass Program

PARTICIPATING OPERATORS ARE REIMBURSED BY MTA BASED ON EZ PASS BOARDINGS TIMES AVERAGE FARE LESS ANY REVENUE FROM EZ PASS SALES

- The reimbursement (revenue-sharing) methodology selected for the EZ Pass program was designed to be both easy to administer as well as to ensure that operators did not lose any revenue by accepting the EZ Pass (consistent with EZ Pass program principles)
- The EZ Pass boarding count and average fare calculation requirements are documented in the EZ Pass Regional Program Guidelines which have been updated since the program began more than two years ago
- Per the original Guidelines, reimbursement was made to participating operators according to the following formula:

$$\text{EZ Pass Boardings} \times \text{Average Fare} \left(\frac{\text{Total Fixed Route Revenue}}{\text{Total Fixed Route Boardings}} \right)$$

- EZ Pass boardings can be collected in one of two ways – farebox counts or survey data
- The FY04 revised EZ pass guidelines allow for a more refined calculation of the average fare to account for differences in the average fare across service types (local versus express) and by rider type (regular versus senior). This additional level of detail allows operators to earn additional EZ pass revenue where the EZ pass utilization on their system is higher on express versus local routes, or among regular versus senior/disabled riders as the average fares for express services and regular riders would be higher

EZ Pass Audit

DESPITE MORE REFINED GUIDELINES THAT COULD INCREASE THEIR EZ PASS REIMBURSEMENTS, MOST OPERATORS CONTINUE TO RELY ON OPERATOR COUNTS OF EZ PASS BOARDINGS AND STILL USE THE SIMPLE AVERAGE FARE CALCULATION

Operator	Boarding Methodology	Average Fare Calculation
AVTA (Antelope Valley)	Farebox Counts	Separate average fare for local and express
Big Blue Bus (Santa Monica)	Farebox Counts	System-wide average fare
Culver CityBus	Farebox Counts	System-wide average fare
Foothill Transit	Farebox Counts	Separate average fare for local, express, and senior/disabled in FY03; overall rate in FY04
Gardena Municipal Bus Lines	Survey Data	System-wide average fare through FY04; will try multiple average fare calculations to see if revenue is enhanced
LADOT	Farebox Counts	Separate average fares by service type – Downtown Dash, Community Dash, and Commuter Express
Long Beach Transit	Farebox Counts	Single average fare for EZ Pass Users (set to maintain revenue equal to prior arrangement with MTA)
Metro	Survey Data on Bus; Limited Surveying on Rail	Not calculated for reimbursement; Metro retains revenues not paid to other operators
Montebello Bus Lines	Farebox Counts	System-wide average fare
Norwalk Transit	Farebox Counts	System-wide average fare
Santa Clarita Transit	Farebox Counts	Express average fare (no EZ Pass use on local routes); no segregation of regular and senior/disabled riders
Torrance Transit	Farebox Counts	System-wide average fare

EZ Pass...Municipal Operators

WHILE MUNICIPAL OPERATORS ARE GENERALLY PLEASED WITH THE EZ PASS PROGRAM, THERE IS SOME CONCERN THAT REVENUE IS LESS THAN EXPECTED

- Several operators feel that they are not being “made whole” (i.e., they are losing some revenue) as a result of participation in the EZ Pass program though any loss is minimal. EZ Pass boarding counts were believed to be the primary factor in less than expected revenues. With most operators relying on operator counts of EZ pass boardings, some under-counting is believed to be occurring
- Loss of revenue associated with the sale of inter-agency transfers (IATs) was also felt to be contributing to less than anticipated fare revenues. However, while all participating agencies report a decline in IAT sales as an expected result of the EZ Pass program, only one believed the net impact of IAT sale losses plus additional revenues from IAT boardings replaced by EZ Pass boardings (at full average fare) to be negative
- Despite some concern over possible fare revenue loss, few operators are making any changes to boarding count or average fare calculation methodologies. One operator did indicate that their current year budget included a ridership survey to verify the accuracy of operator counts. One other operator indicated that they would use the segregated average fare calculations to see if that resulted in increased fare revenues

THE BOS EZ TRANSIT PASS WORKING GROUP IS THE ESTABLISHED FORUM FOR ADDRESSING EZ PASS PROGRAM CONCERNS

EZ Pass...MTA

UNDER THE CURRENT REVENUE SHARING PROCESS, MUNICIPAL OPERATORS ARE REIMBURSED BASED ON EZ PASS BOARDINGS TIMES AVERAGE FARE WHILE MTA RETAINS THE REMAINING REVENUES

- When first implemented, it was unclear whether the EZ Pass program would generate sufficient revenues to cover revenues to be returned to the operators. As such, Prop C Discretionary funds were set aside to subsidize the operators should EZ Pass sales revenue be insufficient to cover reimbursement claims (based on average fare per boarding)
- To MTA has conducted limited counts of EZ pass boardings on the bus and rail system coincidental to other data collection efforts, but a system-wide, statistically valid count has not been conducted. Data for FY04 and estimated FY05, as shown below, indicates that MTA is retaining approximately 70% of EZ pass fare revenues

EZ Pass Program Revenue Reconciliation

	FY04	FY05 (estimated)*
Sales Revenues:	\$8,492,266	\$12,670,707
Program Expenses ¹ (printing, distribution, advertising):	(\$212,473)	(\$265,311)
Net Revenues:	\$8,279,793	\$12,405,396
Municipal Operator Payments:	(\$2,546,473)	(\$3,463,371)
Balance (Retained by MTA):	\$5,733,320	\$8,942,025
Percentage of Revenues Retained by MTA	69.2%	72.1%
Equivalent MTA Boardings (MTA Revenues Retained/MTA Average Fare of \$0.63)	9,555,533	14,193,690

*Based on MTA boarding and program expenses data through 3/05 and EZ Pass Sales and operator payment data through 2/05.

¹ Does not include MTA administrative staff time to administer the program or the cost of vendor commissions.

EZ Pass...Findings

OVERALL, THE MUNICIPAL OPERATORS ARE ADHERING TO EZ PASS PROGRAM GUIDELINES WHILE MTA COULD BETTER COLLECT AND DOCUMENT EZ PASS BOARDINGS ON ITS SYSTEM

- Municipal operators audited during the Triennial Performance Audit process (FY01 to FY03) were found to be adhering to EZ Pass Program guidelines with respect to:
 - EZ Pass boarding count methodology and data submitted to MTA
 - Accuracy of the average fare calculation used to reimburse operators

Most operators are using system-wide average fare to determine reimbursement due though using average fare by rider type may result in more revenue

- Under the current program reimbursement process, MTA is not reimbursed on a per boarding basis instead retaining revenues not paid to the municipal operators. EZ Pass guidelines do not specifically identify the process for reimbursement to MTA Operations, instead referring only to ‘each agency’ submitting boarding counts or estimates to MTA. Whether the current approach is resulting in too high or too low revenues paid to MTA (relative to actual boardings) could not be determined
- Under-counting of MTA EZ Pass boardings combined with the impact MTA’s FY04 fare change on EZ pass utilization on its system could be more thoroughly examined. Additionally, EZ Pass program guidelines and reimbursement requirements could be updated as well. When fully functional, UFS will provide MTA with an accurate count of EZ Pass boardings. However, UFS will not be fully functional system-wide for at least another year and possibly not until 2008

EZ Pass... Recommendations

UFS IMPLEMENTATION WILL PROVIDE MTA A MEANS OF ACCURATELY COUNTING EZ PASS BOARDINGS AT WHICH TIME A REVIEW OF REIMBURSEMENT GUIDELINES WOULD BE APPROPRIATE

- UFS equipment is currently being installed across MTA's system – bus fareboxes, rail ticket vending machines and validators – and will allow counts of EZ pass boardings on Metro to be obtained
- Following collection of MTA EZ Pass boardings data, MTA and participating municipal operators may wish to examine EZ pass reimbursement guidelines and data collection processes/requirements moving forward, particularly addressing data collection and reporting requirements of UFS versus non-UFS participants. Additionally, county-wide implementation of UFS will require the EZ Pass reimbursement process to be incorporated into the regional clearinghouse, providing a timely opportunity to revisit reimbursement guidelines
- **Recommendation:** It is recommended that the success of the EZ Pass program, as evidenced by the significant growth in EZ pass sales over the past three years, be used to further other regional fare initiatives such as a regional day pass. For example, once counts of MTA EZ Pass boardings can be obtained from UFS equipment and MTA's share of EZ pass revenues can be more accurately calculated, surplus revenues (if any) could be used as seed money for further regional pass programs, replacing the need to set aside other MTA regional revenues to cover any potential revenue shortfalls (as was done for EZ Pass)